

Purchasing Managers' Index™
MARKET SENSITIVE INFORMATION
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IHS Markit Flash U.S. PMI™

Private sector output growth loses momentum in August

Key findings:

- Flash U.S. Composite Output Index at 55.0 (55.7 in July). 4-month low.
- Flash U.S. Services Business Activity Index at 55.2 (56.0 in July). 4-month low.
- Flash U.S. Manufacturing PMI at 54.5 (55.3 in July). 9-month low.
- Flash U.S. Manufacturing Output Index at 54.3 (54.5 in July). 11-month low.

Data collected August 13-22

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

August data indicated that business activity growth in the U.S. private sector eased further from the three-year peak seen in May. A loss of momentum was recorded in both the manufacturing and service sectors during the latest survey period. Payroll numbers meanwhile increased at the slowest pace since June 2017.

On a more positive note, inflationary pressures moderated in August, reflecting the least marked rise in average cost burdens since the start of 2018.

At 55.0 in August, down from 55.7 in the previous month, the seasonally adjusted **IHS Markit Flash U.S. Composite PMI Output Index** signalled the weakest rise in private sector business activity since April. That said, the latest reading was still well above the 50.0 no-change value and broadly in line with its post-crisis average (55.2).

Slower business activity growth reflected the weakest rise in new order volumes since December 2017. Some private sector firms cited difficulties sustaining the steep rate of order book growth achieved in the first half of 2018, despite robust client demand and favourable economic conditions.

Staffing levels increased at the softest pace for over one year in August. Survey respondents noted that more cautious hiring strategies largely reflected the need to reduce operating expenses at their business units. Latest data revealed another sharp rise in input costs at private sector companies, although the rate of inflation moderated to a seven-month low. Reports from panel members continued to cite higher prices for steel-intensive items, alongside renewed pressure to boost staff wages.

The composite index is based on original survey data from the IHS Markit U.S. Services PMI and the IHS Markit U.S. Manufacturing PMI.

IHS Markit U.S. Services PMI™

Service sector firms experienced another robust rise in business activity during August, but the rate of expansion eased to a four-month low. This was signalled by a decline in the seasonally adjusted **IHS Markit Flash U.S. Services PMI™ Business Activity Index** to 55.2 in August, from 56.0 in July.

New business volumes increased at the slowest pace seen so far in 2018, but the rate of expansion was in line with the average since the survey began

in 2009. Weaker growth in client spending contributed to a sustained fall in backlogs of work, with the latest decline the greatest since March 2017. Moreover, service providers signalled the least marked rise in payroll numbers for eight months.

Input cost inflation moderated in August and was below the average seen during the first half of 2018. However, prices charged by service sector firms continued to rise at one of the fastest rates seen over the past four years, reflecting efforts to alleviate pressures on operating margins.

IHS Markit U.S. Manufacturing PMI™

The headline seasonally adjusted **IHS Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™)**¹ registered 54.5 in August, down from 55.3 in July and the lowest reading since November 2017.

Mirroring the trends seen across the service sector, latest data pointed to slower rates of output and new business growth at manufacturing companies. Job creation and capacity pressures also moderated in August.

Meanwhile, manufacturers continued to indicate a sharp lengthening of suppliers' delivery times, which survey respondents linked to widespread truck driver shortages.

Stretched supply chains, import tariffs on metals, and a corresponding rise in demand for domestically sourced items contributed to greater input costs during August. Nonetheless, the overall rate of input price inflation eased further from the seven-year peak seen in April. Latest data also pointed to the least marked rise in factory gate charges for five months.

Comment

Commenting on the flash PMI data, **Chris Williamson, Chief Business Economist** at IHS Markit said:

"The US economy lost a little pace in August, according to the flash PMI, but continued to grow at a solid rate. The PMI is indicative of the economy growing at an annualised rate of roughly 2.5%, down from a 3.0% indicated rate in July."

"Output, new orders and employment growth all moderated, adding to signs that the economy has cooled after strong growth in the second quarter. Backlogs of uncompleted work, a key indicator of future output and hiring, meanwhile fell for the first time for over a year, suggesting the slowing trend could persist into the fall."

"Manufacturing has led the slowdown, though the service sector has also come off the boil compared to the second quarter highs."

"Some of the slowdown can be attributed to supply shortages: jobs growth in manufacturing and services is being restricted by a lack of available workers, while factories are also constrained by a lack of raw materials, sometimes blamed on 'panic-buying' of safety stocks as well as a lack of transportation to ship goods around."

"However, the survey also found increased cases of companies reporting the need to cut costs, in part reflecting the recent steep rise in raw material prices, often linked to tariffs and shortage-related price hikes. Fortunately, input price inflation eased for a third successive month and average prices charged for goods and services rose at a slower rate than July's post-recession high."

-Ends-

¹ Please note that IHS Markit's PMI data, flash and final, are derived from information collected by IHS Markit from a different panel of companies to those that participate in the ISM Report on Business and the ISM Non-Manufacturing Report on Business. No information from the ISM survey is used in the production of IHS Markit's PMI.

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Note to Editors:

Final August data are published on September 4 for manufacturing and September 6 for services and composite indicators.

The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"

The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

The U.S. Services PMI™ (*Purchasing Managers' Index*™) is produced by IHS Markit and is based on original survey data collected from a representative panel of over 400 companies based in the U.S. service sector. IHS Markit began collecting monthly PMI data in the U.S. service sector in October 2009. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The IHS Markit U.S. Services PMI complements the IHS Markit U.S. Manufacturing PMI and enables the production of the IHS Markit U.S. Composite PMI which tracks business trends across both the manufacturing and service sectors, based on original survey data collected from a representative panel of over 1,000 companies.

IHS Markit began collecting monthly *Purchasing Managers' Index*™ (PMI™) data in the U.S. in April 2004, initially from a panel of manufacturers in the U.S. electronics goods producing sector. In May 2007, IHS Markit's U.S. PMI research was extended out to cover producers of metal goods. In October 2009, IHS Markit's U.S. Manufacturing PMI survey panel was extended further to cover all areas of U.S. manufacturing activity. Back data for IHS Markit's U.S. Manufacturing PMI between May 2007 and September 2009 are an aggregation of data collected from producers of electronic goods and metal goods producers, while data from October 2009 are based on data collected from a panel representing the entire U.S. manufacturing economy. IHS Markit's total U.S. Manufacturing PMI survey panel comprises over 600 companies.

The panel is stratified by North American Industrial Classification System (NAICS) group and company size, based on industry contribution to U.S. GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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